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SUBJECT: TRINIDAD & TOBAGO ECONOMIC HIGHLIGHTS FROM MID-OCTOBER
THROUGH NOVEMBER 2008

Notable economic developments in Trinidad & Tobago in late October
and November:

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[1. PM announces budget shortfall, spending cuts](#)

On November 30 Prime Minister Manning announced cuts in discretionary spending in response to a projected FY-2009 budget shortfall of US\$850 million, while promising that salaries and pensions, social programs, and law enforcement spending would be spared. The announcement came two months after the GOTT delivered a record US\$8 billion budget for FY-09, premised on oil at \$70 per barrel and natural gas at \$4 netback per MMBTU. Prices of for these commodities, as well as T&T's methanol, ammonia and urea exports, had declined sharply in the intervening period. The GOTT's new revenue projections are based on oil at \$55 per barrel and natural gas at \$3.25 to \$3.50 netback per MMBTU. For details and analysis, see Port of Spain 552.

[2. Inflation rising, CBTT raises reserve requirements](#)

In response to rising inflation, on October 25 the Central Bank of Trinidad and Tobago (CBTT) announced an increase in the commercial bank cash reserve requirement from 15% to 17%. On November 21, with inflation continuing to rise, the CBTT left its benchmark "repo" rate unchanged at 8.75%, anticipating saying that inflationary pressures will ease as a result of GOTT spending cuts and falling prices for food and other commodities on international markets. Headline inflation rose to 15.4% (year-on-year) in October 2008 from 14.8% in September. Food price inflation, which has been a key driver of the headline inflation rate, registered at 33.4% YOY, slightly below the 34.6% figure recorded in September. Core inflation, which hovered in the vicinity of 6.2% over the prior three months, rose to 7.4% in October 2008. Separately, the IMF team conducting T&T's annual Article IV consultation predicted inflation would moderate to 12% at end-2008 and 7% in 2009.

The full text of Central Bank announcement is posted at

<http://www.central-bank.org.tt/>

The IMF team's press release is at
http://www.imf.org/external/np/sec/pr/2008/pr_08288.htm

13. Tight monetary policy slows credit growth

Tight monetary policy led to slower credit growth. The Central Bank of Trinidad and Tobago reported that 12-month expansion in credit was 11.8% in September, down from growth rates of 16.1% in December 2007 and 19.7% in September 2007. Growth in commercial bank credit to the private sector slowed to 16.2% in September 2008 from 21.7% in December 2007 and 24% in September 2007. Consumer credit, which had been growing at around 22% on a year-on-year basis at the start of the year, slowed to 11.5% in September 2008. Business credit has followed a similar trend slowing to 9.4% in September 2008 from around 14% in January. The Report also cited a slowdown in the residential real estate market in response to rising mortgage rates (median 9-10% in the second quarter of 2008, up from 8-9% in the second quarter of 2007). Most commercial banks raised their prime lending rate to 13% in October; however several banks have publicly committed not to raise mortgage rates further so as not to push borrowers into default.

The full Monetary Policy Report is posted at
<http://www.central-bank.org.tt/news/releases/2008/mr081117.pdf>

14. Parliament passes Financial Institution Bill

Both chambers of T&T's Parliament passed the Financial Institutions
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Act, 2008, meant to replace the Financial Institutions Act, 1993. The new Act modernizes regulation of banks, insurance companies and other financial institutions, and provides penalties up to US\$800,000 and five years in jail for operating without a license from the Central Bank. Directors and officers of a company violating the act are subject to joint and several liability. The Act is a key element in the GOTT effort to improve the regulatory framework for launching an international financial center in Port of Spain. During parliamentary debate GOTT ministers also said it would help protect T&T from the effects of the ongoing international financial crisis. New regulations are in the works for the securities industry and credit unions as well.

15. Bread and flour prices fall

With wheat prices falling, the state-owned National Flour Mills announced a reduction in the price of flour. NFM stated that its stock of higher priced wheat was almost totally depleted and it was now in a position to provide more affordable flour. With decreases in major raw material inputs, one of the country's largest bakeries, Kiss Baking Company, also announced a reduction in the price of its brand of bread.

16. Food initiatives stalled, except Cuban farm

Junior Finance Minister Mariano Browne revealed that GOTT request for proposals (RFP) to set up large-scale farms in Trinidad attracted insufficient interest. The GOTT had issued the RFP in 2007, seeking foreign investors to establish ten 100-acre farms on state-owned land in order to boost agriculture and curb food price inflation. The only "mega-farm" project to get off the ground is a 200-acre State Farm in Tucker Valley, Chaguaramas, in Trinidad's northwestern peninsula, set up with support from Cuban advisors under a government-to-government arrangement. A separate GOTT initiative mandating National Flour Mills (NFM) to import bulk food and sell at a low mark-up was discontinued after NFM lost US\$635,000.

17. Importers want CET lifted on fruit and veggies

Local importers of US produce called on government to suspend the 40% CARICOM External Tariff (CET) on fruits and vegetables in order to bring down prices. One import company official complained that

the 40% CET rate applies to high grade cabbage, carrots and cauliflower imported from Florida, when these same items enter duty-free from Costa Rica. (Note: CARICOM concluded a free trade agreement with Costa Rica in 2004.) The company official pointed out that CARICOM nations were unable to supply the quantities and quality of products required to keep prices down, while local farmers have suffered heavy losses due to flooding.

18. Disc Pirates Crushed

Officials of the Copyright Organisation of Trinidad and Tobago (COTT) together with the San Fernando City police crushed more than 4,000 pirated DVDs and music CDs with an estimated street value of US\$8,000. The CDs represented over US\$3,000 in lost revenue for local artistes. Separately, five persons including a minor appeared in Court in Port of Spain charged under the Copyright Act for possession and sale of illegal DVDs. Commenting on recent IPR enforcement actions, COTT's Anti Piracy Unit said that the successful fight against music piracy has caused pirates to shift from music to movies.

19. Caribbean Airlines Expands Fleet

Effective November 15, Caribbean Airlines (CAL) added an eighth Boeing 737-800 aircraft to its fleet, for a total of 13 aircraft. This addition will allow CA to increase its flights for the Christmas and Carnival seasons and also increase frequency to certain destinations. CAL's CEO Phillip Saunders highlighted the T&T-based airline's positive growth during a time when other carriers are pulling back. CAL plans to provide 20 weekly flights to New York, with 25 during peak seasons. CAL will continue its daily non-stop service between Trinidad and Miami and Fort Lauderdale.

110. COPA and Delta Increase Service

Panama-based carrier Copa Airlines announced it will increase its flight frequency to T&T from four to six per week from December 15. Delta Airlines announced that it will resume weekly nonstop service

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from Tobago to Atlanta on Sundays, effective December 21.

111. Desalination underway, Korean firm first

The Water and Sewerage Authority (WASA) is testing a new desalination plant constructed by Korean firm Hankook Jungsoo Industries (HAJI) at Moruga, on Trinidad's remote southern coast. WASA and HAJI signed a Memorandum of Agreement in April for the construction of the plant, which is to supply 100,000 gallons of water daily to some 400 homes, on a trial basis, with options for WASA to purchase the plant or confirm a water supply agreement. Construction was completed in September. Trinidad and Tobago's five-year, US\$1.6 billion water master plan, unveiled in April, includes plans to build five desalination plants in Trinidad; FY-2009 budget cuts will not affect these plans, according to the Minister of Public Utilities.

112. T&T global competitiveness ranking slips

The Global Competitiveness Report 2008/2009 published by the World Economic Forum (WEF) saw Trinidad and Tobago's ranking in the Global Competitiveness Index slip from 84th out of 131 countries last year to 92nd out of 134 countries evaluated this year. T&T's strongest scores, for macroeconomic stability and financial market sophistication, were offset by weak scores for institutions, goods market efficiency, and market size. T&T ranks third among the CARICOM countries evaluated by the WEF, behind Barbados (47th) and Jamaica (85th).

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